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March 6, 2000

The Honorable Gary E. Walsh
Executive Director
Public Service Commission of SC
Post Office Drawer 11649
Columbia, South Carolina 29211

Re: Proceeding to Establish Geographically Deaveraged Rates for Unbundled Network Elements and Network Element Combinations

Dear Mr. Walsh:

Enclosed please find for filing in the above-referenced matter an original and ten copies of a Petition on behalf of BellSouth Telecommunications, Inc. ("BellSouth") in the above-referenced matter. The exhibits attached to this Petition include the direct testimony of Alphonso J. Varner and Daonne Caldwell.

Please be advised that BellSouth considers the exhibits to Ms. Caldwell's testimony to be proprietary in nature, and accordingly is filing the proprietary version of this exhibit under seal. BellSouth respectfully requests that the Commission maintain the confidentiality of this exhibit.

With highest regards,

Robert A. Culpepper

RAC/jbm
Enclosure

Robert A. Culpepper
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March 8, 2000

00-0122-C

The Honorable Gary E. Walsh
Executive Director
Public Service Commission of SC
Post Office Drawer 11649
Columbia, South Carolina 29211

Re: Proceeding to Establish Geographically Deaveraged Rates for Unbundled Network Elements and Network Element Combinations

Dear Mr. Walsh:

On March 6, 2000, BellSouth Telecommunications, Inc. ("BellSouth") filed a petition requesting the Commission open a docket to establish, among other things, geographically deaveraged rates for unbundled network elements. Along with the petition, BellSouth filed the direct testimony of Alphonso J. Varner and Daonne Caldwell. Mr. Varner's testimony contained one exhibit consisting of five pages (Exhibit AJV-1). The first two pages of the exhibit contained certain calculation errors.

Accordingly, please find enclosed for filing an original and ten copies of a revised Exhibit AJV-1 to Mr. Varner's testimony. If you have any questions or comments, please do not hesitate to contact me.

Sincerely,

Robert A. Culpepper

RAC/nml
Enclosure

SOUTH CAROLINA

PROPOSED DEAVERAGED RATES FOR UNE LOOPS AND COMBINATIONS

UNE LOOPS (Recurring Rates)		Statewide Loop Rate	Zone 1	Zone 2	Zone 3	
2-wire analog voice grade loop - service level 1		$ 22.49	$ 18.48	$ 27.87	$ 36.91	
2-wire analog voice grade loop - service level 2		$ 26.25	$ 21.57	$ 32.53	$ 43.08	
4-wire analog voice grade loop		$ 35.86	$ 29.47	$ 44.44	$ 58.85	
2-wire ISDN digital grade loop		$ 32.47	$ 26.68	$ 40.24	$ 53.29	
2-wire asymmetrical digital subscriber line (ADSL) compatible loop		$ 20.81	$ 17.10	$ 25.79	$ 34.15	
2-wire high bit rate digital subscriber line (HDSL) compatible loop		$ 14.86	$ 12.21	$ 18.41	$ 24.39	
4-wire high bit rate digital subscriber line (HDSL) compatible loop		$ 19.73	$ 16.21	$ 24.45	$ 32.38	
4-wire DS1 digital loop		$ 72.55	$ 59.61	$ 89.90	$ 119.06	
4-wire 56 or 64 Kbps digital grade loop		$ 41.70	$ 34.26	$ 51.67	$ 68.43	
2-wire unbundled copper loop		$ 23.00	$ 18.90	$ 28.50	$ 37.75	
UNE COMBINATIONS (Recurring and Non-Recurring Rates) [1]		**Statewide Combination Rate**	**Zone 1**	**Zone 2**	**Zone 3**	
Loop/Port						
2-wire analog voice grade loop SL1 and port, Recurring		$ 24.40	$ 20.71	$ 29.35	$ 37.68	
2-wire voice grade loop		$ 20.71	$ 17.02	$ 25.66	$ 33.99	
2-wire port		$ 3.69	$ 3.69	$ 3.69	$ 3.69	
NR-Installation and Disconnect-Electronic-First		$ 1.59				
NR-Installation and Disconnect-Electronic-Additional		$ 0.40				
NR-Installation and Disconnect-Manual-First		$ 43.19				
NR-Installation and Disconnect-Manual-Additional		$ 9.91				
NR-Subsequent database update - Electronic		$ 0.71				
NR-Subsequent database update - Manual		$ 9.62				
Enhanced Extended Loops (EELs)						
2-wire analog voice grade loop SL2 and DS1 ded interoffice transport with channelization [2]						
Fixed 1st circuit in DS1, Recurring		$ 269.48	$ 264.80	$ 275.76	$ 286.31	
2-wire voice grade loop		$ 26.25	$ 21.57	$ 32.53	$ 43.08	
DS1 facility termination		$ 94.98	$ 94.98	$ 94.98	$ 94.98	
DS1 system		$ 146.49	$ 146.49	$ 146.49	$ 146.49	
Voice grade plug-in		$ 1.76	$ 1.76	$ 1.76	$ 1.76	
Interoffice transport - ded - DS1 per mile, Recurring		$ 0.7598	$ 0.7598	$ 0.7598	$ 0.7598	
Per additional circuit in same DS1, Recurring		$ 28.01	$ 23.33	$ 34.29	$ 44.84	
2-wire voice grade loop		$ 26.25	$ 21.57	$ 32.53	$ 43.08	
Voice grade plug-in		$ 1.76	$ 1.76	$ 1.76	$ 1.76	
NR-Installation and Disconnect-Electronic-First		$ 25.31				
NR-Installation and Disconnect-Electronic-Additional		$ 24.79				
NR-Installation and Disconnect-Manual-First		$ 81.85				
NR-Installation and Disconnect-Manual-Additional		$ 43.81				
4-wire analog voice grade loop and DS1 ded interoffice transport with channelization [2]						
Fixed 1st circuit in DS1, Recurring		$ 280.53	$ 274.14	$ 289.11	$ 303.52	
4-wire voice grade loop		$ 35.86	$ 29.47	$ 44.44	$ 58.85	
DS1 facility termination		$ 94.98	$ 94.98	$ 94.98	$ 94.98	
DS1 system		$ 146.49	$ 146.49	$ 146.49	$ 146.49	
Voice grade plug-in		$ 3.20	$ 3.20	$ 3.20	$ 3.20	
Interoffice transport - ded - DS1 per mile, Recurring		$ 0.7598	$ 0.7598	$ 0.7598	$ 0.7598	
Per additional circuit in same DS1, Recurring		$ 39.06	$ 32.67	$ 47.64	$ 62.05	
4-wire voice grade loop		$ 35.86	$ 29.47	$ 44.44	$ 58.85	
Voice grade plug-in		$ 3.20	$ 3.20	$ 3.20	$ 3.20	
NR-Installation and Disconnect-Electronic-First		$ 25.31				
NR-Installation and Disconnect-Electronic-Additional		$ 24.79				
NR-Installation and Disconnect-Manual-First		$ 81.85				
NR-Installation and Disconnect-Manual-Additional		$ 43.81				
DS0 digital 56 or 64 kbps loop and DS1 ded interoffice transport with channelization [2]						
Fixed 1st circuit in DS1, Recurring		$ 286.37	$ 278.93	$ 296.34	$ 313.10	
DS0 56 or 64 kbps loop		$ 41.70	$ 34.26	$ 51.67	$ 68.43	
DS1 facility termination		$ 94.98	$ 94.98	$ 94.98	$ 94.98	
DS1 system		$ 146.49	$ 146.49	$ 146.49	$ 146.49	
Voice grade plug-in		$ 3.20	$ 3.20	$ 3.20	$ 3.20	
Interoffice transport - ded - DS1 per mile, Recurring		$ 0.7598	$ 0.7598	$ 0.7598	$ 0.7598	
Per additional circuit in same DS1, Recurring		$ 44.90	$ 37.46	$ 54.87	$ 71.63	
DS0 56 or 64 kbps loop		$ 41.70	$ 34.26	$ 51.67	$ 68.43	
Voice grade plug-in		$ 3.20	$ 3.20	$ 3.20	$ 3.20	
NR-Installation and Disconnect-Electronic-First		$ 25.31				
NR-Installation and Disconnect-Electronic-Additional		$ 24.79				
NR-Installation and Disconnect-Manual-First		$ 81.85				
NR-Installation and Disconnect-Manual-Additional		$ 43.81				
DS1 digital loop and DS1 ded interoffice transport [2]						
Fixed, Recurring		$ 167.53	$ 154.59	$ 184.88	$ 214.04	
DS1 loop		$ 72.55	$ 59.61	$ 89.90	$ 119.06	
DS1 facility termination		$ 94.98	$ 94.98	$ 94.98	$ 94.98	
Interoffice transport - ded - DS1 per mile, Recurring		$ 0.7598	$ 0.7598	$ 0.7598	$ 0.7598	
NR-Installation and Disconnect-Electronic-First		$ 25.31				
NR-Installation and Disconnect-Electronic-Additional		$ 24.79				
NR-Installation and Disconnect-Manual-First		$ 81.85				
NR-Installation and Disconnect-Manual-Additional		$ 43.81				

Zone Make-up
Zone 1 (RG 6-7)
Zone 2 (RG 4-5)
Zone 3 (RG 1-3)

Notes:
[1] See attached sheets for calculations to support combinations in each Zone.
[2] Combination rate includes the local loop (loop from BellSouth's central office to end-user's premises), interoffice transport (transport between Bellsouth's offices), and channelization necessary for 2-wire, 4-wire, and DSO combinations. A collocation cross-connect may also need to be purchased to complete the circuit.

2/28/00
Interconnection Pricing
File: SCDeRt1M.xls

Calculations for Loop/Port Combinations				
A	B	C	D	E
Loop/Port	**SL1 Combo Loop Rate in SC Combo Study**	**Line Port Rate in SC Combo Study**	**Proposed Deaveraged Rates**	**Calculation for Proposed Deaveraged Rate**
State-wide Average Rate	$ 20.71	$ 3.69	$ 24.40	D=B+C
Zone 1 Deaveraged Rate	***$ 17.02***	$ 3.69	***$ 20.71***	D=($20.71 x 82.17%)+C
Zone 2 Deaveraged Rate	***$ 25.66***	$ 3.69	***$ 29.35***	D=($20.71 x123.92%)+C
Zone 3 Deaveraged Rate	$ 33.99	$ 3.69	**$ 37.68**	D=($20.71 x 164.11%)+C

Calculations for Zone 1 Enhanced Extended Loop Combinations

A	B	C	D	E	F	G	H	I
Enhanced Extended Loops	Deaveraged Loop Rate	1/0 Multiplexer in SC Combo Study	Voice grade plug-in from Multiplexer Study in SC Combo Study	56 or 64 Kbps plug-in from Multiplexer Study in SC Combo Study	Commission Approved Interoffice DS1 Fixed Rate	Commission Approved Interoffice DS1 per Mile Rate	Proposed Deaveraged Zone 1 Rate	Calculation for Proposed Deaveraged Zone 1 Rate
2-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 21.57	$ 146.49	$ 1.76		$ 94.98		$ 264.80	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 21.57		$ 1.76				$ 23.33	H=B+D
4-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 29.47	$ 146.49	$ 3.20		$ 94.98		$ 274.14	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 29.47		$ 3.20				$ 32.67	H=B+D
DS0 digital 56 or 64 kbps loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 34.26	$ 146.49		$ 3.20	$ 94.98		$ 278.93	H=B+C+E+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 34.26			$ 3.20			$ 37.46	H=B+E
DS1 digital loop and DS1 dedicated interoffice transport								
Fixed	$ 59.61				$ 94.98		$ 154.59	H=B+G
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G

Calculations for Zone 2 Enhanced Extended Loop Combinations

A	B	C	D	E	F	G	H	I
Enhanced Extended Loops	Deaveraged Loop Rate	1/0 Multiplexer in SC Combo Study	Voice grade plug-in from Multiplexer Study in SC Combo Study	56 or 64 Kbps plug-in from Multiplexer Study in SC Combo Study	Commission Approved Interoffice DS1 Fixed Rate	Commission Approved Interoffice DS1 per Mile Rate	Proposed Deaveraged Zone 2 Rate	Calculation for Proposed Deaveraged Zone 2 Rate
2-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 32.53	$ 146.49	$ 1.76		$ 94.98		$ 275.76	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.760	H=G
Per additional Circuit in same DS1	$ 32.53		$ 1.76				$ 34.29	H=B+D
4-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 44.44	$ 146.49	$ 3.20		$ 94.98		$ 289.11	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 44.44		$ 3.20				$ 47.64	H=B+D
DS0 digital 56 or 64 kbps loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 51.67	$ 146.49		$ 3.20	$ 94.98		$ 296.34	H=B+C+E+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 51.67			$ 3.20			$ 54.87	H=B+E
DS1 digital loop and DS1 dedicated interoffice transport								
Fixed	$ 89.90				$ 94.98		$ 184.88	H=B+G
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G

Calculations for Zone 3 Enhanced Extended Loop Combinations

A	B	C	D	E	F	G	H	I
	Deaveraged Loop Rate	1/0 Multiplexer in SC Combo Study	Voice grade plug-in from Multiplexer Study in SC Combo Study	56 or 64 Kbps plug-in from Multiplexer Study in SC Combo Study	Commission Approved Interoffice DS1 Fixed Rate	Commission Approved Interoffice DS1 per Mile Rate	Proposed Deaveraged Zone 3 Rate	Calculation for Proposed Deaveraged Zone 3 Rate
Enhanced Extended Loops								
2-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 43.08	$ 146.49	$ 1.76		$ 94.98		$ 286.31	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 43.08		$ 1.76				$ 44.84	H=B+D
4-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 58.85	$ 146.49	$ 3.20		$ 94.98		$ 303.52	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 58.85		$ 3.20				$ 62.05	H=B+D
DS0 digital 56 or 64 kbps loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 68.43	$ 146.49		$ 3.20	$ 94.98		$ 313.10	H=B+C+E+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 68.43			$ 3.20			$ 71.63	H=B+E
DS1 digital loop and DS1 dedicated interoffice transport								
Fixed	$ 119.06				$ 94.98		$ 214.04	H=B+G
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G

BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DOCKET NO. 2000-0122-C

IN RE:	
PROCEEDING TO ESTABLISH GEOGRAPHICALLY DEAVERAGED RATES FOR UNBUNDLED NETWORK ELEMENTS AND NETWORK ELEMENT COMBINATIONS	PETITION TO ESTABLISH CERTAIN RATES

Petitioner BellSouth Telecommunications, Inc. ("BellSouth"), pursuant to S.C. Code Ann. Regs. 103-836 (1976) and other applicable rules and regulations of the Public Service Commission of South Carolina ("the Commission"), respectfully petitions the Commission to initiate a docket for the purpose of establishing geographically deaveraged rates for unbundled network elements and certain network element combinations. In support of this Petition, BellSouth shows as follows:

1. BellSouth is a public utility presently providing comprehensive telecommunications services to its subscribers pursuant to intrastate tariffs approved by the Commission.

2. BellSouth's authorized representative in this proceeding is:

Caroline N. Watson
BellSouth Telecommunications, Inc.
1600 Hampton Street, Suite 821
Columbia, South Carolina 29201
Telephone: (803) 748-8700
Facsimile: (803) 254-1731

3. Federal Communications Commission ("FCC") Rule 51.507(f) requires state commissions to establish rates for unbundled network elements in at least three cost-related zones within the state to reflect geographic cost differences. Although the FCC had stayed the effectiveness of this rule, that stay will be lifted effective May 1, 2000. Accordingly, the Commission is required to establish rates for applicable unbundled network elements in at least three geographic zones consistent with Rule 51.507(f) by May 1, 2000.

4. As set forth more fully in the attached testimony of BellSouth witnesses Alphonso Varner and Daonne Caldwell, BellSouth believes that loops are the only unbundled network elements whose rates should be geographically deaveraged. Because the Commission approved statewide-average rates for unbundled loops in its June 1, 1998 Order in Docket No. 97-374-C, the Commission should deaverage these existing rates.

5. It also is appropriate for the Commission to establish rates for combinations of certain network elements that involve the use of the loop. Consistent with FCC Rule 51.315(b),

competing carriers in South Carolina may request access to network elements that BellSouth currently combines in its network, which BellSouth may not separate upon request. Although the Commission established cost-based rates for numerous network elements and interconnection services in Docket 97-374-C, those rates represented the forward-looking cost of network elements that were truly unbundled. Because there may be cost differences in both recurring and nonrecurring rates when a competing carrier orders and BellSouth provisions certain network element combinations, BellSouth proposes that the Commission use this proceeding to establish rates for certain combinations, the recurring rates for which should be deaveraged by May 1, 2000.

WHEREFORE, based on the foregoing, BellSouth requests the following relief:

1. that the Commission initiate a docket to establish geographically deaveraged rates for unbundled network elements and network element combinations by May 1, 2000;

2. that other interested parties be given the opportunity to intervene and file testimony on the issues in this proceeding, copies of which should be provided to BellSouth;

3. that the Commission set a hearing as soon as practicable in order to meet the May 1, 2000 deadline; and

4. that the Commission grant such other relief as it deems just and proper.

Respectfully Submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.
Suite 821,
1600 Hampton Street
Columbia, South Carolina 29201
(803) 748-8700

By _____
CAROLINE N. WATSON

Its Attorney

March 6, 2000

BELLSOUTH TELECOMMUNICATIONS, INC.

DIRECT TESTIMONY OF ALPHONSO J. VARNER

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO.

MARCH 6, 2000

Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR BUSINESS ADDRESS.

A. My name is Alphonso J. Varner. I am employed by BellSouth as Senior Director for State Regulatory for the nine-state BellSouth region. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE.

A. I graduated from Florida State University in 1972 with a Bachelor of Engineering Science degree in systems design engineering. I immediately joined Southern Bell in the division of revenues organization with the responsibility for preparation of certain investment separations studies for division of revenues and for reviewing interstate settlements.

Subsequently, I accepted an assignment in the rates and tariffs organization with responsibilities for administering selected rates and tariffs including

preparation of tariff filings. In January 1994, I was appointed Senior Director of Pricing for the nine-state region. I was named Senior Director for Regulatory Policy and Planning in August 1994, and I accepted my current position as Senior Director of Regulatory in April 1997.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present BellSouth's position on deaveraged pricing for unbundled network elements ("UNEs") and certain UNE combinations.

Q. WHAT OBLIGATION DOES THIS COMMISSION HAVE TO ESTABLISH DEAVERAGED RATES FOR UNBUNDLED NETWORK ELEMENTS?

A. Federal Communication Commission's ("FCC") Rule 51.507 (f) requires state commissions to establish different rates (prices) for elements in at least three cost-related rate zones within the state to reflect geographic cost differences. The FCC stayed the effectiveness of this rule on May 7, 1999. The FCC stated that the stay would remain in effect until six months after the FCC released its order in CC Docket No. 96-45 finalizing and ordering implementation of high-cost universal service support for non-rural local exchange carriers ("LECs"). With the November 2, 1999 release of the FCC's order in CC Docket No. 96-46, the stay of section 51.507(f) will be lifted effective May 1, 2000. As such, state commissions are required to establish rates for applicable UNEs in at least three geographic areas pursuant to rule 51.507(f) by May 1, 2000.

Q. WHAT WOULD BELLSOUTH PROPOSE TO BE THE APPROPRIATE BASIS FOR DEAVERAGING UNE PRICES?

A. BellSouth proposes that the appropriate basis for deaveraging UNE prices is market conditions as they exist within each of the designated geographic areas. The concept is that prices should vary where there are significant cost or market variations. While statewide averaged UNE prices currently exist in South Carolina, the purpose of deaveraging is to better reflect differences that exist among the geographic areas.

Q. PLEASE EXPLAIN HOW BELLSOUTH PROPOSES THAT THE DEAVERAGED ZONES BE ESTABLISHED IN SOUTH CAROLINA.

A. Geographic differences and end-user markets were used as the criteria to assign the existing local exchange rate groups into three zones in South Carolina. Rate group costs tend to follow the zoning methodology. Generally, on a loop cost basis, Zone 1 rate groups have costs less than 100% of the statewide average cost, Zone 2 costs are between 100% and 150% of the average and Zone 3 represents costs greater than 150% of the statewide average cost. BellSouth witness Ms. Daonne Caldwell addresses in her testimony the compilation of the cost data and further explains the methodology BellSouth used to determine the ratio applied to the current statewide average UNE rates. The existing local exchange rate groups were then mapped into one of three zones:

Primary Metro Areas – (e.g., Charleston, Columbia, Greenville)

Rate Groups six and seven (6-7) = Zone 1

Secondary Metro Areas – (e.g., Aiken, Seneca, York)

Rate Groups four and five (4-5) = Zone 2

Non-metro Areas – (e.g., Camden, Gaffney, Salem)

Rate Groups one through three (1-3) = Zone 3

Once the existing rate groups were mapped to each of the three zones, the ratio of the average monthly cost per loop in each zone to the state average was determined. This ratio was then applied to the existing UNE loop rates approved by this Commission in Docket No. 97-374-C, Order dated June 1, 1998 to determine the proposed deaveraged UNE rates. The proposed deaveraged rates are contained in Exhibit AJV-1 to my testimony.

Q. PLEASE EXPLAIN WHY IT IS APPROPRIATE TO "MAP" THE EXISTING RATE GROUPS TO THREE DEAVERAGED RATE ZONES.

A. "Rate group-to-zone" mapping best represents the competitive market environment in South Carolina, thereby promoting competition in all areas of South Carolina. Utilizing local exchange rate groups to deaverage UNEs meets the requirements set forth by the FCC and provides consistency between the structure of BellSouth's retail, resale and UNE rates. Further, it is more understandable to customers because customers with similar calling areas and

located in the same geographic region will be in the same deaveraged zone for UNE pricing. Furthermore, using existing rate groups as the basis for establishing pricing zones results in a more balanced UNE pricing structure.

Q. YOU MENTIONED EARLIER THAT BELLSOUTH IS PROPOSING DEAVERAGED PRICES FOR CERTAIN UNE COMBINATIONS. WHAT IS BELLSOUTH'S OBLIGATION TO PROVIDE UNE COMBINATIONS TO COMPETITIVE LOCAL EXCHANGE CARRIERS ("CLECs")?

A. Consistent with the reinstatement of FCC Rule 51.315(b), CLECs may request access to network elements that BellSouth currently combines in its network, which BellSouth may not separate except upon request. According to the FCC, "currently combines" mean that such elements are in fact combined by BellSouth in BellSouth's network to provide service to a particular customer at a particular location. The FCC further confirmed that BellSouth presently has no obligation to combine network elements for CLECs, when those elements are not currently combined in BellSouth's network.

Q. WHY IS IT APPROPRIATE FOR THE COMMISSION TO CONSIDER THE PRICING OF UNE COMBINATIONS IN THIS DOCKET?

A. It is appropriate for the Commission to establish the price of UNE combinations in this proceeding because many UNE combinations involve the use of the loop. Because the Commission intends to establish deaveraged rates for unbundled loops, it should also establish deaveraged rates for combinations

that make use of the same loop. This requires the Commission to establish statewide average recurring rates for combinations, which in turn would be deaveraged. The Commission should also establish nonrecurring rates for these combinations, which would not be deaveraged. Although the Commission established cost-based rates for numerous network elements and interconnection services in Docket No. 97-374-C, those rates represented the forward-looking cost of network elements that were truly unbundled. As explained in greater detail in Ms. Caldwell's testimony, when it comes to UNE combinations, there may be cost differences in both recurring and nonrecurring rates when a CLEC orders and BellSouth provisions certain combinations of network elements that are currently combined in BellSouth's network. Accordingly, the Commission should use this proceeding to establish rates for combinations, which would expedite their availability to CLECs in South Carolina.

Q. IS BELLSOUTH PROPOSING RATES FOR ALL COMBINATIONS OF NETWORK ELEMENTS THAT ARE CURRENTLY COMBINED IN BELLSOUTH'S NETWORK?

A. No. As set forth in AJV-1, BellSouth is proposing recurring and nonrecurring rates for five UNE combinations, which represent the types of loop-port and loop-transport combinations that CLECs have most frequently requested from BellSouth. BellSouth makes available other combinations of network elements consistent with its obligations under Rule 51.315(b). Once the Commission establishes rates for the five most frequently requested combinations,

BellSouth believes that the rates for other combinations a CLEC may request can be handled on a negotiated basis between the parties. Of course, to the extent the parties cannot reach agreement on appropriate rates, either party could ask the Commission to arbitrate the issue.

Q. WHAT IS BELLSOUTH ASKING THIS COMMISSION TO DO IN THIS PROCEEDING?

A. BellSouth recommends that the Commission establish three deaveraged zones in South Carolina using existing local exchange rate groups and that the rates for unbundled loops be deaveraged based upon these rate groups consistent with my testimony. BellSouth also recommends that the Commission establish nonrecurring and recurring rates for certain combinations of network elements that are currently combined in BellSouth's network and that the recurring rates for those combinations be deaveraged using the same rate group methodology.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

#199094

SOUTH CAROLINA
PROPOSED DEAVERAGED RATES FOR UNE LOOPS AND COMBINATIONS

UNE LOOPS (Recurring Rates)	Statewide Loop Rate	Zone 1	Zone 2	Zone 3
2-wire analog voice grade loop - service level 1	$ 22.49	$ 18.48	$ 27.87	$ 36.91
2-wire analog voice grade loop - service level 2	$ 26.25	$ 21.57	$ 32.53	$ 43.08
4-wire analog voice grade loop	$ 35.86	$ 29.47	$ 44.44	$ 58.85
2-wire ISDN digital grade loop	$ 32.47	$ 26.68	$ 40.24	$ 53.29
2-wire asymmetrical digital subscriber line (ADSL) compatible loop	$ 20.81	$ 17.10	$ 25.79	$ 34.15
2-wire high bit rate digital subscriber line (HDSL) compatible loop	$ 14.86	$ 12.21	$ 18.41	$ 24.39
4-wire high bit rate digital subscriber line (HDSL) compatible loop	$ 19.73	$ 16.21	$ 24.45	$ 32.38
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4-wire 56 or 64 Kbps digital grade loop	$ 41.70	$ 34.26	$ 51.67	$ 68.43
2-wire unbundled copper loop	$ 23.00	$ 18.90	$ 28.50	$ 37.75
UNE COMBINATIONS (Recurring and Non-Recurring Rates) [1]	**Statewide Combination Rate**	**Zone 1**	**Zone 2**	**Zone 3**
Loop/Port				
2-wire analog voice grade loop SL1 and port, Recurring	$ 24.40	$ 20.26	$ 21.43	$ 37.68
2-wire voice grade loop	$ 20.71	$ 16.57	$ 17.74	$ 33.99
2-wire port	$ 3.69	$ 3.69	$ 3.69	$ 3.69
NR-Installation and Disconnect-Electronic-First	$ 1.59			
NR-Installation and Disconnect-Electronic-Additional	$ 0.40			
NR-Installation and Disconnect-Manual-First	$ 43.19			
NR-Installation and Disconnect-Manual-Additional	$ 9.91			
NR-Subsequent database update - Electronic	$ 0.71			
NR-Subsequent database update - Manual	$ 9.62			
Enhanced Extended Loops (EELs)				
2-wire analog voice grade loop SL2 and DS1 ded interoffice transport with channelization [2]				
Fixed 1st circuit in DS1, Recurring	$ 269.48	$ 264.80	$ 275.76	$ 286.31
2-wire voice grade loop	$ 26.25	$ 21.57	$ 32.53	$ 43.08
DS1 facility termination	$ 94.98	$ 94.98	$ 94.98	$ 94.98
DS1 system	$ 146.49	$ 146.49	$ 146.49	$ 146.49
Voice grade plug-in	$ 1.76	$ 1.76	$ 1.76	$ 1.76
Interoffice transport - ded - DS1 per mile, Recurring	$ 0.7598	$ 0.7598	$ 0.7598	$ 0.7598
Per additional circuit in same DS1, Recurring	$ 28.01	$ 23.33	$ 34.29	$ 44.84
2-wire voice grade loop	$ 26.25	$ 21.57	$ 32.53	$ 43.08
Voice grade plug-in	$ 1.76	$ 1.76	$ 1.76	$ 1.76
NR-Installation and Disconnect-Electronic-First	$ 25.31			
NR-Installation and Disconnect-Electronic-Additional	$ 24.79			
NR-Installation and Disconnect-Manual-First	$ 81.85			
NR-Installation and Disconnect-Manual-Additional	$ 43.81			
4-wire analog voice grade loop and DS1 ded interoffice transport with channelization [2]				
Fixed 1st circuit in DS1, Recurring	$ 280.53	$ 274.14	$ 289.11	$ 303.52
4-wire voice grade loop	$ 35.86	$ 29.47	$ 44.44	$ 58.85
DS1 facility termination	$ 94.98	$ 94.98	$ 94.98	$ 94.98
DS1 system	$ 146.49	$ 146.49	$ 146.49	$ 146.49
Voice grade plug-in	$ 3.20	$ 3.20	$ 3.20	$ 3.20
Interoffice transport - ded - DS1 per mile, Recurring	$ 0.7598	$ 0.7598	$ 0.7598	$ 0.7598
Per additional circuit in same DS1, Recurring	$ 39.06	$ 32.67	$ 47.64	$ 62.05
4-wire voice grade loop	$ 35.86	$ 29.47	$ 44.44	$ 58.85
Voice grade plug-in	$ 3.20	$ 3.20	$ 3.20	$ 3.20
NR-Installation and Disconnect-Electronic-First	$ 25.31			
NR-Installation and Disconnect-Electronic-Additional	$ 24.79			
NR-Installation and Disconnect-Manual-First	$ 81.85			
NR-Installation and Disconnect-Manual-Additional	$ 43.81			
DS0 digital 56 or 64 kbps loop and DS1 ded interoffice transport with channelization [2]				
Fixed 1st circuit in DS1, Recurring	$ 286.37	$ 278.93	$ 296.34	$ 313.10
DS0 56 or 64 kbps loop	$ 41.70	$ 34.26	$ 51.67	$ 68.43
DS1 facility termination	$ 94.98	$ 94.98	$ 94.98	$ 94.98
DS1 system	$ 146.49	$ 146.49	$ 146.49	$ 146.49
Voice grade plug-in	$ 3.20	$ 3.20	$ 3.20	$ 3.20
Interoffice transport - ded - DS1 per mile, Recurring	$ 0.7598	$ 0.7598	$ 0.7598	$ 0.7598
Per additional circuit in same DS1, Recurring	$ 44.90	$ 37.46	$ 54.87	$ 71.63
DS0 56 or 64 kbps loop	$ 41.70	$ 34.26	$ 51.67	$ 68.43
Voice grade plug-in	$ 3.20	$ 3.20	$ 3.20	$ 3.20
NR-Installation and Disconnect-Electronic-First	$ 25.31			
NR-Installation and Disconnect-Electronic-Additional	$ 24.79			
NR-Installation and Disconnect-Manual-First	$ 81.85			
NR-Installation and Disconnect-Manual-Additional	$ 43.81			
DS1 digital loop and DS1 ded interoffice transport [2]				
Fixed, Recurring	$ 167.53	$ 154.59	$ 184.88	$ 214.04
DS1 loop	$ 72.55	$ 59.61	$ 89.90	$ 119.06
DS1 facility termination	$ 94.98	$ 94.98	$ 94.98	$ 94.98
Interoffice transport - ded - DS1 per mile, Recurring	$ 0.7598	$ 0.7598	$ 0.7598	$ 0.7598
NR-Installation and Disconnect-Electronic-First	$ 25.31			
NR-Installation and Disconnect-Electronic-Additional	$ 24.79			
NR-Installation and Disconnect-Manual-First	$ 81.85			
NR-Installation and Disconnect-Manual-Additional	$ 43.81			

Zone Make-up
Zone 1 (RG 6-7)
Zone 2 (RG 4-5)
Zone 3 (RG 1-3)

Notes:
[1] See attached sheets for calculations to support combinations in each Zone.
[2] Combination rate includes the local loop (loop from BellSouth's central office to end-user's premises), interoffice transport (transport between Bellsouth's offices), and channelization necessary for 2-wire, 4-wire, and DSO combinations. A collocation cross-connect may also need to be purchased to complete the circuit.

2/28/00
Interconnection Pricing
File: SCDeRt1M.xls

South Carolina

BellSouth Telecommunications, Inc.
Exhibit AJV-1
March 6, 2000

Calculations for Loop/Port Combinations				
A	B	C	D	E
Loop/Port	**SL1 Combo Loop Rate in SC Combo Study**	**Line Port Rate in SC Combo Study**	**Proposed Deaveraged Rates**	**Calculation for Proposed Deaveraged Rate**
State-wide Average Rate	$ 20.71	$ 3.69	$ 24.40	D=B+C
Zone 1 Deaveraged Rate	$ 16.57	$ 3.69	**$ 20.26**	D=($20.71 x 82.17%)+C
Zone 2 Deaveraged Rate	$ 17.74	$ 3.69	**$ 21.43**	D=($20.71 x123.92%)+C
Zone 3 Deaveraged Rate	$ 33.99	$ 3.69	**$ 37.68**	D=($20.71 x 164.11%)+C

South Carolina

Calculations for Zone 1 Enhanced Extended Loop Combinations								
A	B	C	D	E	F	G	H	I
	Deaveraged Loop Rate	1/0 Multiplexer in SC Combo Study	Voice grade plug-in from Multiplexer Study in SC Combo Study	56 or 64 Kbps plug-in from Multiplexer Study in SC Combo Study	Commission Approved Interoffice DS1 Fixed Rate	Commission Approved Interoffice DS1 per Mile Rate	Proposed Deaveraged Zone 1 Rate	Calculation for Proposed Deaveraged Zone 1 Rate
Enhanced Extended Loops								
2-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 21.57	$ 146.49	$ 1.76		$ 94.98		$ 264.80	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 21.57		$ 1.76				$ 23.33	H=B+D
4-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 29.47	$ 146.49	$ 3.20		$ 94.98		$ 274.14	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 29.47		$ 3.20				$ 32.67	H=B+D
DS0 digital 56 or 64 kbps loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 34.26	$ 146.49		$ 3.20	$ 94.98		$ 278.93	H=B+C+E+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 34.26			$ 3.20			$ 37.46	H=B+E
DS1 digital loop and DS1 dedicated interoffice transport								
Fixed	$ 59.61				$ 94.98		$ 154.59	H=B+G
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G

South Carolina

Calculations for Zone 2 Enhanced Extended Loop Combinations								
A	B	C	D	E	F	G	H	I
	Deaveraged Loop Rate	1/0 Multiplexer in SC Combo Study	Voice grade plug-in from Multiplexer Study in SC Combo Study	56 or 64 Kbps plug-in from Multiplexer Study in SC Combo Study	Commission Approved Interoffice DS1 Fixed Rate	Commission Approved Interoffice DS1 per Mile Rate	Proposed Deaveraged Zone 2 Rate	Calculation for Proposed Deaveraged Zone 2 Rate
Enhanced Extended Loops								
2-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 32.53	$ 146.49	$ 1.76		$ 94.98		$ 275.76	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.760	H=G
Per additional Circuit in same DS1	$ 32.53		$ 1.76				$ 34.29	H=B+D
4-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 44.44	$ 146.49	$ 3.20		$ 94.98		$ 289.11	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 44.44		$ 3.20				$ 47.64	H=B+D
DS0 digital 56 or 64 kbps loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 51.67	$ 146.49		$ 3.20	$ 94.98		$ 296.34	H=B+C+E+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 51.67			$ 3.20			$ 54.87	H=B+E
DS1 digital loop and DS1 dedicated interoffice transport								
Fixed	$ 89.90				$ 94.98		$ 184.88	H=B+G
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G

South Carolina

Calculations for Zone 3 Enhanced Extended Loop Combinations								
A	B	C	D	E	F	G	H	I
	Deaveraged Loop Rate	1/0 Multiplexer in SC Combo Study	Voice grade plug-in from Multiplexer Study in SC Combo Study	56 or 64 Kbps plug-in from Multiplexer Study in SC Combo Study	Commission Approved Interoffice DS1 Fixed Rate	Commission Approved Interoffice DS1 per Mile Rate	Proposed Deaveraged Zone 3 Rate	Calculation for Proposed Deaveraged Zone 3 Rate
Enhanced Extended Loops								
2-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 43.08	$ 146.49	$ 1.76		$ 94.98		$ 286.31	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 43.08		$ 1.76				$ 44.84	H=B+D
4-wire analog voice grade loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 58.85	$ 146.49	$ 3.20		$ 94.98		$ 303.52	H=B+C+D+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 58.85		$ 3.20				$ 62.05	H=B+D
DS0 digital 56 or 64 kbps loop and DS1 dedicated interoffice transport with channelization								
Fixed 1st Circuit in DS1	$ 68.43	$ 146.49		$ 3.20	$ 94.98		$ 313.10	H=B+C+E+F
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G
Per additional Circuit in same DS1	$ 68.43			$ 3.20			$ 71.63	H=B+E
DS1 digital loop and DS1 dedicated interoffice transport								
Fixed	$ 119.06				$ 94.98		$ 214.04	H=B+G
Interoffice Transport - ded - DS1 per mile						$ 0.7598	$ 0.7598	H=G

BELLSOUTH TELECOMMUNICATIONS, INC.

DIRECT TESTIMONY OF D. DAONNE CALDWELL

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO.

MARCH 6, 2000

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is D. Daonne Caldwell. My business address is 675 W. Peachtree St., N.E., Atlanta, Georgia. I am a Director in the Finance Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BellSouth"). My area of responsibility relates to economic costs.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I attended the University of Mississippi, graduating with a Master of Science Degree in mathematics. I have attended numerous Bell Communications Research, Inc. ("Bellcore") courses and outside seminars relating to service cost studies and economic principles.

My initial employment was with South Central Bell in 1976 in the Tupelo, Mississippi, Engineering Department where I was responsible for Outside Plant Planning. In 1983, I transferred to BellSouth Services, Inc. in Birmingham,

Alabama, and was responsible for the Centralized Results System Database. I moved to the Pricing and Economics Department in 1984 where I developed methodology for service cost studies until 1986 when I accepted a rotational assignment with Bellcore. While at Bellcore, I was responsible for development and instruction of the Service Cost Studies Curriculum including courses such as "Concepts of Service Cost Studies", "Network Service Costs", "Nonrecurring Costs", and "Cost Studies for New Technologies". In 1990, I returned to BellSouth and was appointed to a position in the cost organization, now a part of the Finance Department, with the responsibility of managing the development of cost studies for transport facilities, both loop and interoffice. My current responsibilities encompass testifying in cost-related dockets, cost methodology development, and the overall coordination of cost study filings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to explain how BellSouth determined the proposed ratios used to deaverage the state-wide rates that the Public Service Commission of South Carolina ("Commission") established in Docket No. 97-374-C for unbundled loops.

Additionally, I present the cost study results for certain combinations of network elements, the recurring rates for which will also be deaveraged using these ratios.[1]

[1] BellSouth is submitting a cost study results for the following combinations; 2-wire loop-port, 2-wire loop-DS1 dedicated interoffice transport, 4-wire loop-DS1 dedicated interoffice transport, 4-wire 56/64 Kbps digital loop-dedicated DS1 interoffice transport, and 4-wire DS1 digital loop-dedicated DS1 interoffice transport.

The study, both in paper form and on a CD-ROM, is attached to this testimony as Exhibit DDC-1. Included in the study are an executive overview, a summary of results, element descriptions, factor development, TELRIC Calculator© input and outputs, and investment development work papers.

Q. PLEASE EXPLAIN THE PROCESS BELLSOUTH USED TO DETERMINE THE RATIOS IT IS PROPOSING TO USE TO DEAVERAGE LOOP COSTS IN SOUTH CAROLINA.

A. The process is relatively straightforward:

1) Develop loop costs by wire center
2) Partition the wire centers in South Carolina into rate groups based upon the General Subscriber Tariff. BellSouth witness, Mr. Varner, explains why this method of classifying wire centers is appropriate for deaveraging purposes.
3) Classify rate groups into one of three zone designations. BellSouth witness, Mr. Varner, addresses how the rate group to zone mapping was determined.
4) Calculate the average monthly cost per loop in each zone.
5) Compare the zone average to the state average to determine the ratio for the zone.

Q. HOW DID BELLSOUTH ACCOMPLISH THE FIRST STEP IN THE PROCESS, THE DEVELOPMENT OF LOOP COSTS BY WIRE CENTER?

A. BellSouth utilized the Benchmark Cost Proxy Model ("BCPM") presented to this Commission in the Universal Service Fund ("USF") proceeding, Docket No. 97-239-C. Because this Commission has adopted the BCPM for determining the level of the USF, BellSouth decided to also use BCPM to develop the ratios for geographic deaveraging in this proceeding. BellSouth concluded that use of the BCPM with Commission-ordered input values would be the least contentious method of deaveraging statewide loop rates in South Carolina and thus, would expedite the process, particularly because deaveraged rates must be place by May 1, 2000.

Q. WHAT WERE THE RESULTS OF BELLSOUTH'S CALCULATIONS?

A. The ratios BellSouth determined were:

Zone 1 (Rate Groups 7-6): 82.17% of statewide average
Zone 2 (Rate Groups 5-4): 123.92% of statewide average
Zone 3 (Rate Groups 3-1): 164.11% of statewide average

Exhibit DDC-2, attached to this testimony, displays the output of the BCPM and the subsequent calculation of the ratios for each of the zones.

Q. YOU STATED THAT THESE RATIOS WILL BE USED TO DEAVERAGE LOOPS. IS IT APPROPRIATE TO DEAVERAGE OTHER UNBUNDLED NETWORK ELEMENTS?

A. No. The cost of the loop varies by geographic location. However, other UNEs either do not display the same level of cost variation by geographic location or have price structures that already account for geographic cost differences. Thus, BellSouth believes that the local loop is the only network element that should be deaveraged in this proceeding.

For example, switching does not vary significantly by geographic location. None of the factors that make the loop cost vary are present with respect to switching cost calculations. The physical characteristics of the loop and the placement costs associated with that loop vary by geographic location due to weather, terrain, and distance. However, these factors do not impact switching costs to any great degree. Another factor, customer density, also has little impact on switching costs because the modularity of digital switching equipment allows BellSouth to grow switches as demand dictates. Also, remote switch entities can be deployed to serve pockets of customers. However, there is one factor that contributes to the variation in switching costs, the vendor. The two dominant switch vendors, Lucent and Nortel, have different switch architectures. The result is that the distribution between traffic sensitive ($/Minute of Use) and non-traffic sensitive (port) costs differs depending on the vendor purely because of this difference in architecture, not due to any geographic difference.

Additionally, switching cannot be viewed in the same manner as local loops because logically one cannot isolate one switch from the network. The switch is a part of a total integrated network designed to handle a call from the originating switch entity to the terminating switch entity. To segment individual switches

based on individual cost differences ignores the interdependencies between switch entities. This is clearly a problem for remote switches that are dependent on a host switch for interoffice call processing.

The cost of other unbundled network elements may vary by geographic location, but these cost differences are reflected in existing rate structures without the need for deaveraging. An example is interoffice transport. The rate structure for interoffice transport is on per mile basis. This rate structure already accounts for geographic differences by eliminating length from the equation. Thus, there is no reason to include interoffice transport in the deaveraging scheme. Of course, some of the physical attributes of the interoffice route will impact the costs just as they do in the loop, e.g., the type of placement. However, because the cost is expressed on a per unit (mile) basis, these differences are negligible.

Q. YOU INDICATED THAT BELLSOUTH CONDUCTED COST STUDIES FOR COMBINATIONS SUBJECT TO DEAVERAGING. WHY WAS THIS NECESSARY?

A. In the UNE Docket No. 97-374-C, BellSouth only presented studies for elements that were truly unbundled. However, with the reinstatement of FCC Rule 51.315(b) and issuance of the FCC's 319 UNE Remand Order, BellSouth is obligated to provide combinations of network elements that are currently combined in its network. Any of these combinations that make use of a loop are also subject to deaveraging.

Recurring costs for most combinations can be determined by simply adding the appropriate rates established in Docket No. 97-374-C, because the underlying recurring cost study inputs are unaffected by whether the elements are provided on an unbundled basis or in combined form. However, that is not the case for other combinations of unbundled network elements, such as a 2-wire voice grade loop-port combination. Because it was assumed that these unbundled network elements would be purchased individually to create the final product that would be sold to the end-user, direct integration of the loop into the BellSouth switch was not appropriate, and thus Integrated Digital Loop Carrier ("IDLC") technology was excluded from the unbundled loop studies. Additionally, both the unbundled loop and unbundled port contained the cost of terminating a loop or port to a main distributing frame ("MDF"), which are valid assumptions when one is talking about loop and ports being provided on an unbundled basis. However, in the loop-port combination scenario IDLC is assumed and only one MDF termination is required for a 2-wire loop-port combination. Only those combinations whose recurring cost would be changed because of the combination assumption were studied.

Additionally, BellSouth studied the components required for channelization; i.e., the multiplexer system and plug-ins. These elements are required in the loop-transport combinations.

Q. DID BELLSOUTH ALSO STUDY NONRECURRING COSTS FOR COMBINATIONS?

A. Yes. Even though nonrecurring costs are not subject to deaveraging, BellSouth felt that the nonrecurring costs should also be included for combinations to provide a complete picture of the costs. Nonrecurring costs are one-time expenses associated with provisioning, installing and disconnecting the network capability. These costs typically include five major categories of activity: service inquiry, service order, engineering, connect and test, and technician travel time. However, because one of the underlying assumptions of the combination study was that the combination reflects a pre-existing customer, only service order and limited connect and test activities are relevant. Thus, the cost is substantially less than the sum of the nonrecurring rates established in the UNE docket. For example, the sum of the nonrecurring rates for a 2-wire unbundled loop (SL1) and a 2-wire unbundled port is $95.42 ($70.44+$24.98). BellSouth has determined the nonrecurring cost associated with converting an existing retail service to a 2-wire loop-port combination to be $1.59.

Q. WHAT COST METHODOLOGY IS USED IN BELLSOUTH'S COMBINATION COST STUDY?

A. The study methodology accepted by Commission Order No. 98-214 in Docket No. 97-374-C dated June 1, 1998 is used to determine the costs outlined in Exhibit DDC-1. This Order established rates for numerous network capabilities, ranging from 2-Wire Analog Loop to Physical Collocation. In its discussion of the cost studies submitted by BellSouth and accepted by the Commission, the Commission states; "BellSouth's cost study developed 'economic costs', which reflects TELRIC plus consideration of common costs." (Order No. 98-214 at Page 30)

The FCC developed the term "economic costs". In its Order, the FCC states, "In practice, this will mean that prices are based on the TSLRIC[2] of the network element, which we will call Total Element Long Run Incremental Cost (TELRIC), and will include a reasonable allocation of forward-looking joint and common cost." (Footnote added)

Q. PLEASE PROVIDE SOME BACKGROUND TO DOCKET NO. 97-374-C.

A. BellSouth filed cost studies to support permanent prices for unbundled elements. The studies were filed electronically with complete documentation. With these studies, BellSouth introduced a new cost model, the TELRIC Calculator©. The TELRIC Calculator© converts material prices and labor work times to cost. The Commission accepted the TELRIC Calculator© as a viable model to determine the TELRIC economic cost associated with network capabilities. However, the Commission did make some adjustments to the inputs filed by BellSouth.

Q. ARE THE ADJUSTMENTS TO BELLSOUTH'S INPUTS ORDERED BY THE COMMISSION INCORPORATED IN THE COMBINATION COST STUDY?

[2] TSLRIC stands for Total Service Long Run Incremental Cost. The TSLRIC methodology is basically identical to the TELRIC methodology once consideration is given to the purpose of the study. TSLRIC methodology is used to determine the cost of a service whereas the TELRIC methodology is used in determining the cost of a network element. The main difference is the inclusion of shared costs. These costs are excluded in a TSLRIC study. However, the FCC recognized that certain shared costs that would be excluded in a TSLRIC analysis are appropriate in a TELRIC study.

A. Yes. The Commission ordered inputs that are relevant to the cost elements in this proceeding are included. The cost studies include the Commission-ordered cost of money, depreciation lives, shared and common factors, and fall-out rates.

Q. PLEASE ELABORATE ON THE ADJUSTMENTS BELLSOUTH MADE TO THE COST STUDY TO FULFILL THE COMMISSION ORDER NO. 98-214 IN DOCKET NO. 97-374-C.

A. I will address each of the adjustments made in this filing and reference the appropriate discussion from the South Carolina Commission's Order. The cost study follows the intent of each Commission adjustment.

Cost of Capital – On page 22, the Commission states that "appropriate inputs to the study will be the capital structure, cost of debt, and cost of equity presently approved by the Commission for BellSouth." This equates to a 35.82% debt/64.18% equity structure, 7.47% cost of debt and 12.75% cost of equity. The overall cost of capital is then 10.86%, which was utilized in BellSouth's study.

Depreciation – The Commission, on page 23, states "Depreciation rates approved by this Commission should be used as input into the TELRIC process." These are the rates used to generate the costs results presented in Exhibit DDC-1.

Shared and Common Costs – The Commission accepted BellSouth's shared cost calculation. However, the Commission did adjust the common cost factor. On page 24 of Order 98-214, the Commission states: "Competitive common costs

should be less over time, on a forward looking basis." Thus, the Commission lowered the factor to 4.79%. This is the value used in to generate the results presented in Exhibit DDC-1.

Fall-out Factors – The Commission stated that "a Fall-out Factor of 5% is the most appropriate." (Page 24 of Order No. 98-214) This adjustment has been made in BellSouth's study.

It is important to remember that even though the Commission made several input modifications, they accepted the TELRIC Calculator© as an appropriate means of determining BellSouth's costs associated with making an investment and with provisioning a network capability.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The ratios BellSouth calculated to deaverage statewide rates were developed using the BCPM populated with Commission-approved inputs. These ratios provide an appropriate mechanism to deaverage rates in South Carolina. Additionally, the combination cost study filed in this proceeding determines South Carolina-specific TELRIC economic costs for certain combinations, which were developed using the basic study methodology and approved input values previously authorized by this Commission in Docket No. 97-374-C.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.